

## **ALTERNATIVE DEVELOPMENT PROGRAM**

**(CO-0196)**

### **EXECUTIVE SUMMARY**

**BORROWER AND  
GUARANTOR:** Republic of Colombia

**EXECUTING AGENCY:** The National Alternative Development Plan (Plan Nacional de Desarrollo Alternativo, known by the acronym PLANTE), attached to the Office of the President of the Republic. Program funds will be disbursed through the Cofinancing Facility for Rural Investment (DRI Fund) and the Development Projects Fund (Fondo Financiero de Proyectos de Desarrollo ? FONADE).

**AMOUNT AND SOURCE:**

IDB:	US\$ 90 million
Local counterpart funding:	US\$ 60 million
Total:	US\$150 million

**FINANCIAL  
TERMS AND  
CONDITIONS:**

Amortization period:	20 years
Disbursement period:	4 years
Grace period:	4 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%
Currency of the loan:	U.S. dollars from the Single Currency Facility

**BACKGROUND:** Colombia is working to eradicate illicit drug crops while at the same time contending with an economic crisis and violence in the eradication zones, where a large percentage of the population is either directly or indirectly involved in the production and trafficking of illegal products.

In parallel with its eradication plans, the government is pursuing an alternative development approach, the goals being to: (i) create legitimate sources of income; (ii) reestablish cultural values and ethics; (iii) bolster the State's institutional presence in the eradication zones, and (iv) lay the foundations for lasting, self-sustaining local and regional development.

Alternative development in Colombia follows on after eradication efforts, since it is recognized that in

the absence of eradication or interdiction programs, there can be no substitute for illegal products, given the prices they command and the financing and marketing options available for them.

Areas targeted for alternative development efforts have an economic base built on cultivation of drug crops, and include: (i) areas on the fringe of or beyond the agricultural frontier which have been haphazardly settled; and (ii) native reserves or territories whose residents have seen their cultural and production systems frayed by unregulated development.

Alternative development initiatives consolidate the agricultural frontier, large tracts of which are ecologically fragile and lend themselves only to environmental restoration and management initiatives.

Those areas that could support farming have very limited marketing and other infrastructures and little in the way of proven technology or technology-transfer capacity.

It is against this backdrop of constraints and conflicts that the government is developing and carrying through its emergency plans, and has requested the Bank's help in smoothing the transition to a more normal stage of rural development, bolstering the State's presence in zones which are resistant to governance.

This is the first operation of this type undertaken by the Bank, with all the difficulties it will entail. The government has no experience either in large-scale operations of this nature. For these reasons, the emphasis in the program will be on quality of execution, so as not to waste resources, and on careful implementation. To this end, there are plans for very close monitoring, and two-phase implementation: the final US\$40 million of the loan proceeds, corresponding to the second stage, would only be committed upon receipt of evidence of satisfactory disbursement performance and program progress.

**OBJECTIVE:**

To provide support for urgent action required to rekindle sustainable production and social development in areas from which illegal crops are being eradicated.

**BENEFICIARIES:**

This program will benefit residents of rural areas from which drug crops are being eradicated, to be selected locally by municipalities and indigenous communities.

Benefiting from the program activities will be at least 30,000 families of small farmers, each of which had been growing up to three hectares of drug crops, along with other campesinos who are not involved in this activity but are legitimate residents of areas in which eradication campaigns are under way.

**DESCRIPTION:**

The program will provide support for institutional and community development, attending to the most pressing demands. It will fund local investment projects and preinvestment activities with short implementation times.

The program will be executed by means of annual operating plans identifying specific areas and activities for each successive year. These plans will be reviewed and approved at periodic meetings between the PLANTE and the Bank, after clearance by the representative institutions and authorities at the local level. The annual operating plans for the program will be based on development plans or "life plans" of indigenous peoples, formulated as two-year local operating plans.

The program will: (i) strengthen municipal administrative capacity and carry out health and education projects and small-scale training or productive projects to retrain workers and rebuild municipal social capital, among them initiatives targeted to women and youth; (ii) provide technical assistance to help restructure local economies along sustainable lines; (iii) restore areas that are environmentally fragile or require special management, such as national parks and their surrounding buffer zones; (iv) upgrade communications, water and sewer and electric power infrastructure (but not, in so doing, encourage the expansion of farmland into forested areas); (v) conduct studies and provide financing for specific resettlement projects; and (vi) support projects identified as high priorities by indigenous peoples and intended to strengthen their traditional economies, niche production and native institutions, with support also for processes to normalize their territories.

The following entities will be eligible for funding under the program: PLANTE municipalities ? currently 95 out of the country's total of 1,096 municipalities ? in which drug crop eradication efforts are under way; native councils and council federations having jurisdiction over native reserves; producer associations and organizations; community organiza-

tions; religious organizations; departmental governments, and regional development corporations in eradication zones. The DRI Fund, FONADE, and eligible entities may hire specialized public or private agencies or nongovernmental organizations to carry out specific projects.

The scale of the program is based on a sample of projects reviewed, and on fitting projects to municipal plans, and recent project execution experience in the municipalities and other entities eligible for support under the program.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environment Committee, at its meeting of April 30, 1996, classified this as a Category III operation (Minutes 12/96). The environmental report was approved at the Committee's meeting of November 5, 1996.

**BENEFITS:**

This program is designed to address an economic, political and social emergency. Specifically, it will reduce the risk that campesino residents in eradication zones might turn again to the cultivation of illegal crops, either because of a lack of viable legal alternative or due to a continuing absence of State presence in these areas, other than on the law enforcement and interdiction front.

Particular support is planned for indigenous communities, which have been especially affected by illegal crop growing activities.

**RISKS:**

Risk that crops will not be eradicated. If economic conditions of the trade in illegal substances continue to be attractive or the government is unable to sustain the eradication effort, attempts to rebuild social capital and reverse environmental damage will be to little avail. And if the eradication effort is less than all-out, it could end up displacing illegal activities toward other equally environmentally vulnerable locations. At any event, the program will make a useful contribution to local infrastructure, without aggravating the problem of environmentally-unsustainable land settlement.

Risks associated with the program's implementation. Projects could be delayed or left unfinished if local entities are unable to generate investment proposals, if central agencies are slow to respond, or if too much red tape is created. At the local level, municipalities and indigenous communities will be helped to prepare plans and projects. And at the central level, all cofinancing funds available to eligible entities have been consolidated and will be

disbursed under agreements, on the basis of prior accords with the PLANTE, which will coordinate and supervise the process. The requirement of prior screening and clearance of projects by intermediate bodies at the departmental level has been done away with. The government will still have to contend with spending constraints under the annual cash management program, which have meant that a number of agencies have been able to expend far less than was originally budgeted for them.

Risks ensuing from policies that induce campesinos to move onto land which cannot sustain agriculture. Even if drug crops were to be completely eradicated, it is still possible that the process of haphazard encroachment on environmentally sensitive land might continue. Even if this did not trigger the massive flows of settlers that illegal drug crop cultivation attracted, it would still harm the soil and wildlife? the more so given the meager production potential of such areas in the first place. The present program includes funds for resettlement initiatives.

Risk of neglecting other regions and population groups. The present emergency could divert attention from other longstanding rural development concerns, with the risk of neglecting other areas which are no better off in terms of meeting basic needs. The Bank is considering a new stage of support for rural development.

**THE BANK'S  
COUNTRY AND  
SECTOR STRATEGY:**

In August 1995, the Bank's Board of Executive Directors approved the country paper for Colombia (GN-1886), setting out the Bank's strategy for operations with the country from 1995 to 1997. Two elements of this strategy are particularly relevant for the present program: (i) support for direct investment in the social sectors as a means of alleviating poverty and raising the standard of living of the population; and (ii) strengthening capacity in public institutions in order to make public spending more efficient. Investments supported by the program will be in areas with extremely high rates of basic unmet needs, and will strengthen the institutions of the less developed local governments and indigenous councils. Paragraph 4.15 of the country paper refers to support to be given to decentralization and bolstering of the State's presence in areas of illegal activity; paragraph 4.24 deals with Bank support for alternative development.

**INTERNATIONAL  
COMPETITIVE  
BIDDING:**

The thresholds above which procurement funded under this program will require international competitive bidding are US\$350,000 for goods and US\$2.5 million for construction work.

**LOW-INCOME  
BENEFICIARIES:**

The municipalities being targeted are rural, and are among the poorest in Colombia. In 92% of them, only 40% of the population has access to public water supply, 34% have electricity, and only 19% have sewer and basic sanitation services. Because precise indicators and beneficiary numbers for each municipality will have to wait until baselines are developed, the proposed program is not being presented as a poverty-targeted operation.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Before the first US\$50 million of the loan proceeds may be disbursed, the borrower must demonstrate to the Bank's satisfaction that:

- ? the PLANTE has signed administration agreements with the DRI Fund and FONADE for disbursement of the program funds, on terms substantially similar to those that are to have been agreed upon in advance with the Bank;
- ? the PLANTE management support unit is to be up and running, with core staff hired in accordance with draft contracts and with procedures agreed on with the Bank;
- ? the Operating Regulations have been put into effect;
- ? at least 12 municipalities in representative Andean and Amazonian areas have had their PLANTE programs approved by the local rural development council or equivalent body, and have signed agreements with the PLANTE; and
- ? independent audit support has been engaged for technical and environmental oversight for the first year of the program.

Before the balance of US\$40 million (second phase) of the Bank's loan can be committed, the borrower must have:

- a. disbursed at least 70% of the funds comprising the first phase of the financing, and
- b. paid out, from the first-phase loan funds, at least US\$22 million for construction or service contracts, after first ascertaining that the works or services have been finished or delivered, as applicable.

In addition to the foregoing conditions precedent to each of the two disbursement phases, the borrower will undertake as follows:

- ? All amendments to the Operating Regulations must be cleared in advance by the Bank.
- ? Starting in the second year, all agreements between the PLANTE and eligible entities, as well as the respective DRI Fund cofinancing agreements, must be signed by March 31 each year.

- ? An annual programming meeting of Bank and PLANTE staff will be held before November 30 each year to review progress, take corrective action and draw up budgets for the subsequent period.
- ? At least 10 working days in advance of an annual programming meeting, the executing agency will provide the Bank with program progress documentation and action plans for the following period.
- ? Resettlement projects for which program funding is sought will require approval in advance by the Bank, in accordance with an Environment Committee review.